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**HF 2447** – Renewable Energy, Geothermal (LSB 2648HZ)

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Fiscal Note Version – New

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### **Description**

**House File 2447** creates an individual income tax credit for the installation of a residential geothermal heat pump. The new income tax credit is equal to 20.0% of the federal residential energy efficiency tax credit available for geothermal heat pump installations. The federal credit is equal to 30.0% of qualified geothermal heat pump installation expenditures and is set to expire December 31, 2016. The Iowa tax credit will continue to be available should the federal tax credit be extended. The new State tax credit is not refundable, but unused credits can be carried forward and utilized by the taxpayer in future fiscal years.

The Bill also prevents the installation of a geothermal heat pump system from increasing the assessed value of residential property for 10 assessment years. This applies to systems installed on or after July 1, 2012, and first assessed for property tax purposes on January 1, 2013 (FY 2015).

### **Assumptions**

- The Iowa Utilities Board estimates that 2,000 residential geothermal installations occur each year (new construction and replacement systems).
- The Department of Revenue estimates that the average cost of installation is \$17,500. An individual income tax credit based on 20.0% of the 30.0% federal credit equals a State tax credit of \$1,050, and using the redemption patterns of other nonrefundable tax credits, it is assumed the \$1,050 will be utilized:
  - a. First tax year = 56.0%
  - b. Second tax year = 21.0%
  - c. Third tax year = 5.0%
  - d. Fourth through tenth tax years = 1.8%
- The Department of Revenue's Iowa Real Property Appraisal Manual places an additional property value equal to \$4.00 per square foot for the installation of a geothermal heating system in a single-family residential home. Due to construction-quality grade adjustments, the typical square foot adjustment for a geothermal heat pump home is \$4.88 per square foot.
- Polk County property assessment data indicate that the median square footage of a home with a geothermal heat pump is 1,792 square feet. At \$4.88 per square foot, this is \$8,745 in assessed value per installation.

- The residential rollback is 50.7518% for assessment year 2011 (FY 2013) and is projected to rise over the next eight years. For estimating purposes, a rollback value of 55.0000% was used.
- The FY 2012 average residential tax rate was \$35.68 per \$1,000 of taxable value and that rate was assumed for this estimate. The school aid basic levy represents \$5.40 of the \$35.58 average tax rate.
- Given the above property tax related assumptions, the average property tax reduction associated with this proposed exemption is \$172 per year for 10 years (\$1,720).

### **Fiscal Impact**

The new individual income tax credit created in the Bill is projected to reduce income taxes paid to the State by \$1.2 million in FY 2013 and increase to \$1.8 million by FY 2017. Due to the expiration of the federal credit, the net General Fund impact is projected to decrease to zero by FY 2025. The Bill will also have a modest negative impact (\$36,000 to \$50,000 per year) on revenue generated by the local option income surtax for schools.

The property tax exemption created in the Bill is projected to reduced property taxes owed by the impacted taxpayers by \$0.1 million in FY 2015 and that impact will grow in annual increments of approximately \$300,000 through FY 2024. Through the school aid formula, the State General Fund appropriations will replace approximately 15.1% of the property tax reduction and the remaining impact will represent reduced local government property tax revenue.

	<b>Fiscal Impacts in Millions of Dollars</b>		
	State General Fund Revenue Reduction	State School Aid Appropriation Increase	Local Property Tax Revenue Reduction
FY 2013	\$ 1.2	\$ 0.0	\$ 0.0
FY 2014	1.6	0.0	0.0
FY 2015	1.7	0.0	0.1
FY 2016	1.8	0.1	0.4
FY 2017	1.8	0.1	0.7
FY 2018	0.7	0.2	1.0
FY 2019	0.4	0.2	1.3
FY 2020	0.3	0.3	1.6
FY 2021	0.3	0.3	1.9
FY 2022	0.3	0.4	2.2
FY 2023	0.2	0.4	2.5
FY 2024	0.1	0.5	2.8

**Sources**

Iowa Utilities Board  
Department of Revenue  
Iowa Real Property Appraisal Manual  
Polk County residential assessment statistics

/s/ Holly M. Lyons

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March 27, 2012

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#). Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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